

# ***REVOLVING FUNDS***

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## **A GENERAL OVERVIEW July 2003**

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# ***Agenda***

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- Background
- Purpose/Concepts
- Objectives
- Operations
- Summary
- FY 2003 Budget
- Questions and Answers

# ***Background: What is a Revolving Fund?***

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“An account or fund in which all income is derived from its operations and is available to finance the fund’s continuing operations without fiscal year limitation.”

*Source: Congressional Research Service, The Library of Congress*

# ***Background: What is a Revolving Fund?***

An accounting entity which finances the fund's continuing cycle of operations without fiscal year limitation (no-year account).

Revolving fund = Component Working Capital Fund (97 X 4930.00y) activities (depot maintenance, supply, R&D, ordnance, transportation, base support, information services) each financed primarily with O&M funds.

# ***Background: Revolving Funds, A Long History***

- ❖ Concept of revolving funds is not new
  - ◆ Navy used stock funds in the 1870s.
  - ◆ In 1940's, Hoover Commission found abuses in government operations could be reduced by using revolving fund concepts.
  - ◆ National Security Act Amendments of 1949 authorized the Secretary of Defense to establish revolving funds.
- ❖ Originally, two types of revolving funds
  - ◆ Stock funds for supplies, fuel, food, etc.
  - ◆ Industrial funds for maintenance, overhaul, repair, and modification of weapon systems and components, as well as other functions such as research and development (earliest dates back to the early 1950's).

# ***Background: Revolving Funds Recent History***

- ❖ AFTER OCTOBER 1, 1991 **DEFENSE BUSINESS OPERATIONS FUND**
- ❖ December 11, 1996, USD(C) canceled the Defense Business Operations Fund
- ❖ AFTER DECEMBER 11, 1996
  - ◆ **WORKING CAPITAL FUNDS**
  - ◆ **USD(C) changed the name, not the concepts.**

# ***Background: Five Working Capital Revolving Funds***

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- ❖ Army Working Capital Fund
- ❖ Navy Working Capital Fund
- ❖ Air Force Working Capital Fund
- ❖ Defense-Wide Working Capital Fund
- ❖ Defense Commissary Agency Working Capital Fund

# ***Background: Working Capital Fund Additions since 1991***

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- ❖ Defense Finance and Accounting Service
- ❖ Defense Commissary Agency
- ❖ Defense Reutilization and Marketing Service
- ❖ U.S. Transportation Command
- ❖ Joint Logistics Service Center
- ❖ Central Design Activities
- ❖ Defense Security Service



# ***Purpose and Concepts of Revolving Funds***

- Improves cost awareness, promotes cost consciousness
- Mirrors private sector operations, identifies full cost
- Creates buyer-seller relationships
- Stabilized rates protect customers from inflation during execution
- Decision makers know the cost of their decisions
- Possess considerable flexibility
- *Revolving Funds don't save or lose money...*

# ***Purpose and Concepts Of Revolving Funds***

- ❖ Establishes customer-provider relationships
  - ◆ Customer determines requirements and justifies funding
  - ◆ Provider has flexibility in its use of resources and has greater control of cost
  - ◆ Customer reimburses provider for products or services received
- ❖ Focus on cost and cash management
- ❖ Annual stabilized rates
- ❖ Operating and Capital budgets

# *Improve Financial Management Practices*

- Chief Financial Officers (CFO) Act requires annual certification of financial statements
- Government Performance and Review Act (GPRA) requires performance measurement
- Revolving fund operations routinely provide the information to satisfy the CFO Act and GPRA, and facilitate organizational scrutiny and cost comparisons.

# ***How Revolving Funds Operate***

- ❖ Congress provides a one-time cash corpus
- ❖ Customer receives annual appropriation
- ❖ Customer sends work orders or project orders to the (revolving fund activity) provider
- ❖ Provider furnishes the service or product, pays for expenses incurred, and bills the customer
- ❖ Customer pays the bill.
- ❖ Provider operating losses/gains (in the Current Year) increase/decrease customer prices (appropriated fund requirements), respectively, in the Budget Year

# *Operations: Revolving Funds Budget Execution*

Revolving Fund activities are provided with annual operating and capital budgets

- ❖ Operating Budget: includes all direct, indirect, and general and administrative costs, including expenses for depreciation of assets (labor, nonlabor, materials, supplies, utilities, real property maintenance, personnel and payroll support, etc.).
- ❖ Capital Budget: includes funding of investment items (end item w/unit cost >\$100,000 and a life of 2 years or more) for equipment, ADP and telecommunications

# ***Operations: Revolving Funds Customer Rates***

Rates are established for products/services furnished by a provider on a unit cost basis

- ❖ Supply: rates include cost of the goods plus a surcharge that recovers the actual costs of operating the supply business.
- ❖ Distribution Depots: rates include cost of receipt, storage, packing, and shipping for goods ordered by customers, expressed as cost per line item received, stored, or shipped.
- ❖ Depot Maintenance: rates include costs incurred in repair, rework, or modification of depot level reparable items or components,

# ***Operations: Revolving Fund Policies***

- ❖ Composite stabilized rate changes (from Current Year to the Budget Year) for each Activity Group (e.g., Depots) are published in PBDs and remain fixed during year of execution
  - ♦ rate changes vary among activities within activity group.
- ❖ Rates are based on full costs
  - ♦ direct, indirect, and g&a costs
  - ♦ gains and losses of prior years
  - ♦ depreciation
- ❖ Depreciation based on established schedules straight line basis
  - ♦ ADP equipment and software - 5 years;  
internally developed software and equipment<sub>15</sub>-  
10 years, facilities, 20 years

# *Operations Example: Appropriated Funds vice Revolving Funds Approach*

## ■ *Appropriated Funds*

■ *PLUMBER COSTS PER HOUR*      *\$23*

■ *HIDDEN COSTS*      *14*

- *MILITARY SALARIES*
- *PAYROLL SERVICES*
- *COMPTROLLER*
- *ADP SUPPORT*
- *SAFETY AND SECURITY*
- *SPECIAL PROJECTS*
- *VEHICLE PURCHASE*
- *ENVIRONMENTAL COMPLIANCE*
- *FECA/EMPLOYEE BENEFITS*
- *SUPPLY SUPPORT*
- *CAPITAL PURCHASES*

■ *COST TO DOD*      *\$37*

■ *Objective - obligate  
100% of funds*

## ■ *Revolving Funds*

■ *PLUMBER COSTS PER HOUR*      *\$37*  
*(excludes Major Construction)*

■ *COST TO DOD*      *\$37*

■ *Objective - minimize  
cost*



# Operations Example: EFFECT OF WORKLOAD FLUCTUATIONS ON A MANDAY RATE

	<u>DIRECT MANDAYS</u>	<u>DIRECT COSTS</u>	<u>OVERHEAD</u>	<u>TOTAL COSTS **</u>	<u>MANDAY COSTS</u>	<u>RATE</u>
■ BUDGET RATE	10,000,000	\$1,800	\$1,700	\$3,500		\$350.00
■ WL DECR. BY 10%	9,000,000	\$1,620	\$1,677	\$3,297		\$366.33
■ WL INCR. BY 10%	11,000,000	\$1,980	\$1,723	\$3,703		\$336.64

\* (COSTS IN MILLIONS)

\*\*overhead cost changes at a ratio of 1 to 10 to the direct workload

# ***Operations: Financial Controls***

- Anti-Deficiency Act (ADA) violation if at any time during a fiscal year:
  - Obligations for capital purchases exceed the limitation on the operating budget (AOB)
  - If cash outlays are in excess of the fund
  - obligations exceed available budgetary resources (I.e., appropriation, transfers, funded orders, recoveries)
- Operating cost authority on the Annual Operating budget should not be exceeded without OSD (C) approval

# ***Revolving Funds Management***

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- ❖ Working Capital Funds Policy Board approved major policy changes. Moving away from board to OSD Comptroller direction.
- ❖ Central policy, de-centralized execution.
- ❖ Components continue to manage their own business areas.
- ❖ Each business area is managed

# ***Revolving Funds: Management Structure***

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- ❖ OSD Comptroller develops consistent policy across components for working capital funds business areas.
- ❖ Emphasis is placed on reducing cost and achieving zero Net Operating Results (NOR).

# *Summary*

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- ❖ Revolving fund financial management is mostly common sense
- ❖ Foster a business-LIKE atmosphere in resource management (customer-provider)
- ❖ Identify the total cost of providing goods/services, minimize costs, measure performance
- ❖ Don't perform work without a funded order

# *Summary cont'd.*

- Are things perfect? - by no means - financial systems & report accuracy/consistency/timeliness need improvement; few people understand or appreciate revolving fund operation; financial and program performance need to be better linked
- Managerial will to embrace cost control makes a big difference
- MOST IMPORTANT: Management decisions which reduce the cost of revolving fund operations below budgeted levels saves money or buys additional program\_

# DOD TOPLINE VERSUS DWCF

	<u>FY 2003</u>	<u>FY 2004</u>
DoD \$ in billions	\$ 364.6	\$ 379.9
WCF \$ in billions	93.7	85.5
WCF Civilian FTE (000)	197	182
WCF Military ES (000)	20	20

About 20% of DoD Direct Appropriations is financially managed through the WCF.

# ***FY 2004 DWCF PRESIDENT'S BUDGET (Dollars in Billions)***

<u>Component</u>	<u>FY 2003</u>	<u>FY 2004</u>
Army	\$9.4	\$8.7
Navy	24.5	22.1
Air Force	22.0	20.4
Defense-Wide	31.6	28.0
Commissary	<u>6.2</u>	<u>6.3</u>
Total	\$93.7	\$85.5



# ***FY 2004 President's Budget (Dollars in Billions)***

## ■ DWCF Activity Group Obligations

	FY 2003	FY 2004	
• Supply	\$48.7	\$ 43.5	
• Depot Maintenance		12.3	11.0
• Ordnance	0.5	0.7	
• R&D	8.7	8.4	
• Transportation		7.4	6.3
• Commissary	6.2	6.3	
• Financial Ops	1.7	1.5	
• Info Services	4.1	4.0	
• Distribution Depots			1.5 1.5
• Base Support	1.5	1.5	
• Other	<u>1.1</u>	<u>0.8</u>	
• Total	\$93.7	\$85.5	

# ***Working Capital Funds Cash Balances (Dollars in Millions)***

<u>Component</u>	<u>Sep 2002</u>	<u>June 2003</u>
Army	\$251	\$612
Navy	1,710	957
Air Force	1,323	1,891
Defense	1,043	308
Commissary Agency	220	378
Total	\$4,547	\$4,146

(cash policy: 7-10 days of operations + 4-6 months of capital program) = \$2.8 - \$3.9 Billion

# ***Questions And Answers***

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- ❖ New Working Capital Fund Web-site:
  - ❖ [www.dtic.mil/comptroller/Icenter](http://www.dtic.mil/comptroller/Icenter)
- ❖ Ralph Proctor: [proctorr@osd.pentagon.mil](mailto:proctorr@osd.pentagon.mil)